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Before the
Federal Communications Commission
Washington, D.C. 20554

FCC 96J-3

In the Matter of	)	
	)	
Federal-State Board on	)	CC Docket No. 96-45
Universal Service	)	
	)	
	)	

**COMMENTS OF UNITED UTILITIES, INC.
IN RESPONSE TO RECOMMENDED DECISION
RELEASED NOVEMBER 8, 1996**

SUMMARY

United Utilities, Inc. (United), an Alaskan rural local exchange carrier, is generally supportive of the Final Recommended Decision. The Joint-Board's recommendation (para. 356) allowing Alaskan local exchange carriers to continue to use embedded, i.e. actual costs, until further notice for obtaining federal universal service funding is applauded. Currently, no proxy model for Alaska exists. Constructing a proxy model for Alaska with its vast terrain, mountains and glaciers, and scattered and dense population would be a difficult, if not, impossible task. Using actual costs for determining the amount of federal universal service funding support is clearly the best approach for now.

United also supports the: (1) proposed definition for universal service; (2) the recommendation to retain the existing study areas for rural telephone companies for the purpose of determining federal universal service funding support; (3) assessing universal service fund contributions based on gross interstate and state revenues; (4) the recommendations to implement support to schools and libraries; and (5) many of the other recommendations and comments that are too numerous to list. We do however have several concerns and additional recommendations.

We recommend: (1) the use of embedded actual costs in Alaska be clarified to provide for these costs to be updated on an annual basis until the Commission revisits federal universal support for Alaska; (2) local calling areas reflect the pertinent "community of interest"; (3) assessing total gross interstate and intrastate revenues to fund all universal service programs including high cost and Lifeline assistance; (4) low income customers receive the entire $7.00 of Lifeline assistance that is funded with both federal and state dollars; (5) support for single line businesses not be reduced because of the existing implicit support ridden single line business rate; (6) not limiting the amount of universal service support in high cost areas to a given amount of local usage; (7) affording carriers that offer eligible discounts to medical care providers the ability to be directly reimbursed; (8) recovering interstate CCL costs from IXCs and not having incumbent LECs bill these costs for customers that do not select a PIC; and (9) the removal of DEM support for long distance services.

Clarification of the Use of Embedded Actual Costs

United is requesting that the use of embedded actual costs in Alaska be clarified to mean the "use of the most recent embedded annual actual costs and the updating of these costs on an annual basis following procedures established by the fund administrator". This clarification is necessary since the board's recommendations (para. 356) do not address, for Alaska, what embedded costs will be used for determining federal universal support in Alaska. We also recognize that this clarification would only be used until the Commission has had an opportunity to revisit the use of proxies and federal universal support in Alaska.

In Alaska a number of network changes and upgrades are now occurring and planned for the future. United is concerned that these changes, which often come long after similar changes in the L'48, would unfavorably impact universal service in Alaska. For example, United is a joint venture partner with AT&T Alascom in the ownership and operation of 48 satellite earth stations. This year the joint venture proceeded with a five year program to upgrade the earth stations with modern digital DAMA technology. As part of this program we have identified locations where it is more economical and otherwise attractive to serve a location via microwave and including the location within the local calling area of another nearby location.

The Alaska Public Utilities Commission recently approved one of these planned changes for Twin Hills to be served from United's local office in Togiak (TA 23-249). Theses type of network changes are consistent with the board's recommendation that a local calling areas reflect the pertinent "community of interest" (para. 128). In addition, service continues to be deployed in new areas adjacent to existing facilities. This new service, often wireless service, has different cost characteristics than existing wireline facilities. For all of these reasons it is appropriate to allow embedded actual costs to be updated on an annual basis until, and if, proxies or some other process is implemented by the Commission.

Local Service Calling Areas

The board found that the scope of the local calling area directly and significantly impacts the affordability of telephone service (para. 127). Specifically, the board recommended that "A determination should be made that the calling area reflects the pertinent "community of interest", allowing subscribers to call hospitals, schools, and other essential services without incurring a toll charge" (para. 128). In many rural Alaskan communities there is only a health clinic that is manned on a part time basis by personnel who have very limited medical training. These personnel in most cases are not registered public nurses or medical doctors. The health clinics receive professional support from regional hospitals. Also, most rural community schools (K-G12) belong to regional school districts that administer many of the educational activities at each of the community schools. In addition, most rural communities must rely on regional centers to receive other essential services including dental care, food, clothing, and educational services.

Currently some rural communities have access to hospitals, schools, and other essential services without incurring a toll charge (for example Girdwood, Talkeetna, and Willow). There are however other rural communities that now do not enjoy the same toll free access (for example Halibut Cove, Moose Pass, and Atmautluak).

United respectfully requests that the Commission adopt the board's recommendation that local calling areas reflect the pertinent "community of interest" allowing subscribers to call hospitals, schools, and other essential services without incurring a toll charge. State commission's should be encouraged to facilitate the conversion of existing toll routes into local calling areas where this is necessary to satisfy the "community of interest" objective. The Commission's guidance in this area should greatly facilitate the state regulatory process for converting noncomplying toll routes. Frequently, the long distance carriers (AT&T Alascom and GCI, Inc.) mount stiff opposition to the conversion of toll routes into local calling areas.

Funding for High Cost Assistance and Low Income Assistance Programs

The board made no recommendations concerning the appropriate funding base for the modified high cost and low income assistance programs (para. 817). United recommends that the modified high cost and low income assistance programs be funded by assessing both the intrastate and interstate revenues of all providers of interstate telecommunications services. The board recommended this procedure for funding universal support for schools and libraries and rural health care providers. Assessing both the intrastate and interstate revenues for all universal service programs complies with the Telecommunications Act of 1996 - "Every telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and advance universal service" (Section 254 (d)). Each state's total revenues, when compared to total nationwide revenues, fairly represents each state's ability to contribute to the funding of universal service. Any other method of assessing contributions would not be equitable and would by definition likely be discriminatory. In addition, the funding of all universal service programs in the same manner should enhance the accountability and the administration of universal service funds.

Lifeline Assistance Program

United supports the board's recommendation to "modify the Lifeline program to ensure that low-income consumers may receive Lifeline support without regard to the state in which they reside" (para. 417). We however believe that the recommendation to require state matching funds in order to receive an amount above a baseline federal amount of $5.25 (para. 419) violates this recommendation, is contrary to the Telecommunications Act of 1996, and is unnecessary. A lifeline customer, someone who is participating in a state-administered, low-income welfare program, should not be restricted from receiving the entire federal amount of $7.00 because the individual resides in a state that may elect not to participate in a program that requires matching federal contributions with state dollars.

Herein we have recommended that all universal service funding including funding for Lifeline assistance be based on gross interstate and state revenues. The states clearly do not need incentives to participate in a program to provide assistance to low income customers if the state is helping to fund the program. Adoption of a matching requirement, and using other than gross interstate and state revenues as a funding base, could result in low income customers being treated differently depending upon the state that they reside in. The Commission should strive for equitable and nondiscriminatory treatment for all low income customers nationwide. Also, the Commission should note that the board did not recommend matching state with federal contributions to provide service to any other class of customer. Low income customers should not be singled out. The board has made other recommendations that make it unnecessary to adopt any incentives. These recommendations include:

> "in order to be eligible for support from the new national universal service support mechanism pursuant to section 214(e)(1), carriers most offer Lifeline assistance to eligible low-income customers" (para. 417).
>
> "a carrier must demonstrate to the public utility commission of the state in which it operates that it offers a Lifeline rate to qualified individuals" (para. 424).

Support for Single Line Businesses Should not be Reduced

The board has recommended that "eligible carriers would receive less support for serving single connection businesses than they would for residential service because business rates are higher than residential rates" (para. 92). In arriving at this recommendation the board overlooked the fact that the reason that single line business rates are now higher than residential rates is that state commissions have built an implicit subsidy into the business line rate to help keep residential rates low. For example, United's single line business rate is $34.00 per month. It's residential rate is $19.23 per month. This rate differential has nothing to do with the costs of serving a single line business. A single line business uses the same facilities as a single line residential customer. With competition, and the unbundling of rates to make support flows explicit, state commissions will find it increasingly difficult to support residential rates by requiring carriers to charge more to business customers for the same service. In fact the continuation of this practice would be in direct conflict with the pro competition and explicit support provisions of the Telecommunications Act of 1996 (Sections 253 and 254).

Most rural single line businesses are home based, operate on low profit margins, and may find it prohibitive to receive telephone service without support. When residential use is commingled with business use to the extent that it is with single line businesses it makes no sense to single out single line businesses to receive less support. Furthermore, there is no evidence that single line businesses cost any more to serve than do residential customers who do not conduct any business activity out of their homes.

The board stated that; "For small, single-connection businesses in high costs areas, however, the price of telephone service may be prohibitive without support. Therefore, we recommend making universal service support available for designated services carried to single-connection businesses in high cost areas" (para. 91). The board's sole reliance on existing, implicit support based single line business rates, to reduce the amount of future universal service support, is insufficient. Single line businesses are not eligible for Lifeline assistance. The board has acknowledged that they need assistance. United recommends that the Commission proceed to afford single line businesses in high cost areas the same treatment as single line residential customers.

We also recommend that this issue be revisited in the future when the Commission re-evaluates its universal service programs. At that time sufficient information may be available to isolate those single business line customers in high cost areas who may need less assistance. The board's approach of let's reduce assistance to all single line businesses will likely to do more damage than good. Let's not make it more difficult for small single line businesses than it already is especially when these businesses operate out of homes and need affordable telephone service.

Determination of Amount of Local Usage to Support

This issue was apparently raised by the Florida PSC (para. 38) who proposed supporting flat-rate and unlimited calling within a subscriber's local calling area. Some carriers offer measured services charging local customers usage sensitive rates. The board recommended "for purposes of determining the amount of federal universal service support, we recommend that the Commission determine a level of local usage" (para. 49). Many carriers, including United, do not offer measured service. If the Commission were to implement a local usage sensitive support mechanism, United and other carriers, would likely have to do away with flat, non usage, based rates. Rural telephone companies serving high cost areas would have to purchase new switches, new software, and implement new billing systems.

The Commission should note that the board recommended that the definition of universal service included voice grade access to the public switched network and the ability to place and receive calls (para. 4). Limiting support for local service would be limiting the access and ability to place and receive calls within the local calling area. There are many other restrictions being placed on universal service funding that make it unnecessary to limit the amount of support for local calling. Nevertheless, should the Commission elect to limit the amount of support for local usage United recommends: (1) that this limitation only apply to non rural carriers that use measured service, and (2) that rural carriers be exempt from having to limit the amount of local usage that customers receive in order to be able to receive the full amount of universal service funding that the carrier is otherwise entitled to receive.

Preventing Direct Reimbursement for Qualifying Medical Care Services is Anti-Competitive

The board recommended that the Commission allow carriers providing services to health care providers at reasonable comparable rates under the provisions of section 254(h)(1)(A) to treat the amount eligible for support as an offset toward the carrier's universal service obligation. "We recommend that the Commission disallow the option of direct reimbursement although we recognize that this alternative is within the Commission's authority" (para. 716). The board's rationale was that an offset mechanism is both less vulnerable to manipulation and more easily administered and monitored (para. 716). Here the board has trampled all over its recommendation to establish "competitive neutrality" as an additional principle upon which to base policies for the preservation and advancement of universal service (para. 23).

The board has recommended that all carriers providing interstate communications make contributions to the universal service fund based on their gross interstate and state revenues net payments to other telecommunications carriers (para. 778). If a carrier's universal service fund contribution is less than the eligible discounts, it will have to carry over to future years the excess as an offset to future contributions (para. 716). This is anti-competitive for smaller carriers whose universal service funding obligations are insufficient enough to allow it to receive the full offset in the current year. A company is going to be less likely to want to compete to provide eligible services to medical care providers if it, unlike its competitors, has to wait to receive reimbursement for the discounts it offers.

The board has provided for the direct reimbursement of all other services eligible for universal service funding including the basic services, Lifeline assistance, Link-up, and services to schools and libraries. Eligible services to medical care providers should not be singled out because the assertion has been made that an offset mechanism is less vulnerable to manipulation and more easily administered and monitored. If this is a valid concern, the Commission needs only to adopt the same administrative procedures for eligible services to medical care providers that the board has recommended for schools and libraries. The Commission should note however that the board has recommended separate accounting and allocation systems for eligible discounts to medical care providers (para. 687) and certification requirements (para. 725, 726, 751, and 752).

Incumbent LECs Should Not Have to Collect IXC Costs From Local Rate Payers

The board has recommended that incumbent LECS recover interstate CCL costs from IXCs through a flat, per line charge and that the per-line charge be assessed against each customer's PIC (para. 776). The board further recommends that incumbent LECs collect the flat rate charge that would otherwise be assessed against the PIC from any customer who elects not to choose a PIC (para. 776). United supports the recommendation to move to a flat, per line charge. United however opposes having the incumbent LEC assess this charge to customers who elect not to choose a PIC. Customers who do not select a PIC can still make (via debit cards, calling cards, etc.) and receive long distance calls. There is clearly no valid reason to shift costs onto local rate payers that represent the costs of facilities that are used to originate and terminate long distance calls. The CCL costs applicable to interstate long distance services should be assessed and completely recovered only from those lines that have a PIC.

Removal of DEM Support for Long Distance Services

Currently, long distance access services receive implicit support via the DEM Category 3 switching cost separations allocation factor. The DEM weighting is used to allocate Category 3 switching costs to the interstate jurisdiction. Since a local switch only switches a call once, DEM which double counts intra office minutes, now provides an implicit support flow to long distance services. The board in its opening statement (para. 1) explains that all support mechanism should be explicit as is required by the Telecommunications Act of 1996 (Sec. 254). To accomplish this the DEM allocation factor needs to be replaced with a factor that counts each minute of use, whether local or toll, only once.

United recommends the adoption of actual switched minutes of use (SMOU) for allocating Category 3 switching costs. DEM was established years ago to reflect the use of separate equipment in electromechanical offices for the origination and termination of a call. Most, if not all, of the electromechical offices have been replaced with modern digital switches which do not use separate equipment to originate and terminate calls. Continued use of DEM incorrectly prices interstate access services and clearly violates the requirement to make all support mechanisms explicit. Also, the calculation of the local exchange implicit support per paragraph 292 of the Recommended Final Decision using DEM would result in an incorrect amount of implicit support. The local exchange implicit support should be calculated using SMOU and the current DEM weighting factors.

Conclusion

United requests that the Commission carefully consider its recommendations. The use of embedded actual costs in Alaska needs to be clarified to provide for the annual update of these costs. The "community of interest" local calling area board recommendation needs to be affirmed. All universe service programs including high cost and Lifeline assistance should be funded from assessments on total interstate and intrastate revenues. Low income customers should be entitled to receive the entire $7.00 in Lifeline assistance. Support to single line businesses should not be reduced because of the existing implicit support that single line businesses provide to residential customers. Local usage should not be limited in high cost areas. Direct reimbursement should be allowed for eligible discounts to medical care providers. Incumbent LECs should not collect interstate CCL costs from local rate payers who do not select a PIC. And DEM support for long distance services should be removed.

United also requests that we be given an opportunity to comment on the regulations that the Commission drafts to implement the universal service provisions of the Telecommunications Act of 1996.

Respectfully Submitted,

Steve Hamlen
President

CERTIFICATE OF SERVICE

I, Laurie A. Kemper, do hereby certify that copies of the foregoing Comments were sent via first class mail, postage paid, to the following on the 6th day of December 1996.

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